



**Office of the City Auditor
Passport Services
Report No. 0607**

May 31, 2006

As a Passport Acceptance Facility, the City has complied with federal passport processing standards. Requiring annual training and improving communication between the Office of the City Clerk and the Citizens and Neighborhood Resources Department would strengthen operational performance.

CITY COUNCIL

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Mary Manross

Council
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Wayne Ecton
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May 31, 2006

To the Most Honorable Mary Manross, Mayor
and Members of the Scottsdale City Council

Transmitted herewith is a report on Passport Services, Report No. 0607. We would like to thank staff in the City Clerk's Office, the Financial Services Department, and the Citizens and Neighborhood Resources Department for their assistance during this audit.

If you need additional information or have any questions, please contact me at 480-312-7756.

Respectfully submitted,

Cheryl Dreska, CPA, CIA, CFE, CGFM, CISA, CISSP
City Auditor

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EXECUTIVE SUMMARY

An audit of Passport Services was included on the 2006 Audit Plan to evaluate compliance with federal passport processing standards, program performance, and controls over the revenues received from execution fees.

Our work supports a conclusion that controls are sufficient to provide reasonable assurance of compliance with passport processing standards. Agents followed established standards and completed the required checks of identity and documentation during on-site visits to each City site that accepts passport applications. Tests of Federal Daily Transmittal records indicated that the correct fees were collected and forwarded to the Department of State or, in the case of the execution fee, deposited and recorded as revenue on City financial records. Agents were knowledgeable about practices to follow and the Customer Service Manager from the Department of State reported no issues with the quality of work completed by City staff in their role as Passport Agents.

We did, however, identify two situations warranting follow-up to ensure continued City compliance. First, a volunteer was observed carrying out activities of an Agent (e.g., verifying applicant identity, collecting required documentation, and answering questions). Although management did not find this practice inappropriate given that an authorized Agent finalized the transaction, we question if this practice complies with federal standards. Second, we found that information listed on the City's General Records Retention Schedule is unclear as to the length of time a financial record is to be retained as well as which documents are to be considered the official record. As such, passport-processing sites had documentation that, in our opinion, exceeded the retention period approved by the State Department of Library and Archives. As of the close of fieldwork, we were unable to obtain consensus regarding the length of time cash transmittal records were to be retained at Neighborhood Resource Centers.

We also noted situations in which operational performance could be strengthened. Under the current environment, Agents are not required to obtain annual, formalized training on passport processing standards. Moreover, there is limited effort towards joint planning and interdepartmental communication between the two work groups that have staff carrying out passport acceptance functions. Lastly, a final quality control review does not occur as a routine function at all locations accepting passports. Instead, City Clerk staff have added this task as one of their responsibilities. This practice circumvents accountability of the Agent or facility responsible for compliance and does not provide management with the appropriate level of documented assurance over the accuracy and completeness of passport processing.

ACTION PLAN

No.	Management Response
1	<p>Activities carried out by City staff acting in the capacity of Passport Agents complied, overall, with Passport Services Standards; operational performance could be further strengthened through the implementation of a formal quality control system to include routine interdepartmental communication, supervisory monitoring, and a requirement for annual training.</p>
	<p>Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p>Proposed Resolution or Reason for Disagreement: Management from both work units (City Clerk and CNR) propose to meet on a quarterly basis to discuss processing issues and methods. During the first discussion, the existing process for reporting errors (supervisory monitoring) can be discussed and modified as needed (the City Clerk's office has already begun tracking errors for a baseline and further discussion). Also, the creation of a training schedule and the associated responsible parties will be discussed and formalized.</p> <p>Responsible Party: Carolyn Jagger Judy Register Completed By: Ongoing</p>
2	<p>Clarification is needed from the U.S. Department of State to ensure that continued use of a volunteer to perform passport-related activities does not create an issue of non-compliance.</p>
	<p>Management Response: <input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree</p> <p>Proposed Resolution or Reason for Disagreement: A written inquiry (email) will be sent by CNR to the State Dept Customer Service Manager (Mike Silva) to clarify acceptable roles for volunteers and contract employees in passport processing, and the response(s) will be copied to the Clerk's office (Carolyn) when it is received. The volunteers' job responsibilities in each work unit will be adjusted by any recommendations or guidelines if needed.</p> <p>Responsible Party: Carolyn Jagger Judy Register Completed By: June 30, 2006</p>

BACKGROUND

For over a decade, the City of Scottsdale has been a designated Passport Acceptance Facility (Acceptance Facility or Facility) under the Passport Acceptance Program managed by the U.S. Department of State. As an Acceptance Facility, City staff provides the function of Passport Acceptance Agent (Agent) to establish the identity of the person applying for a passport and verify that paperwork is completed properly. In this role, City staff serves strictly as the conduit between the community and the U.S. Department of State, the federal agency ultimately responsible for issuing passports.

Federal law requires an Agent to be a permanent employee of the Acceptance Facility and a U.S. citizen (or U.S. national). As well, the Agent must be at least eighteen years of age with no current criminal history (not on parole and no federal or state felony convictions within the last five years). Finally, only individuals approved by the U.S. Department of State can perform the duties of an Agent.

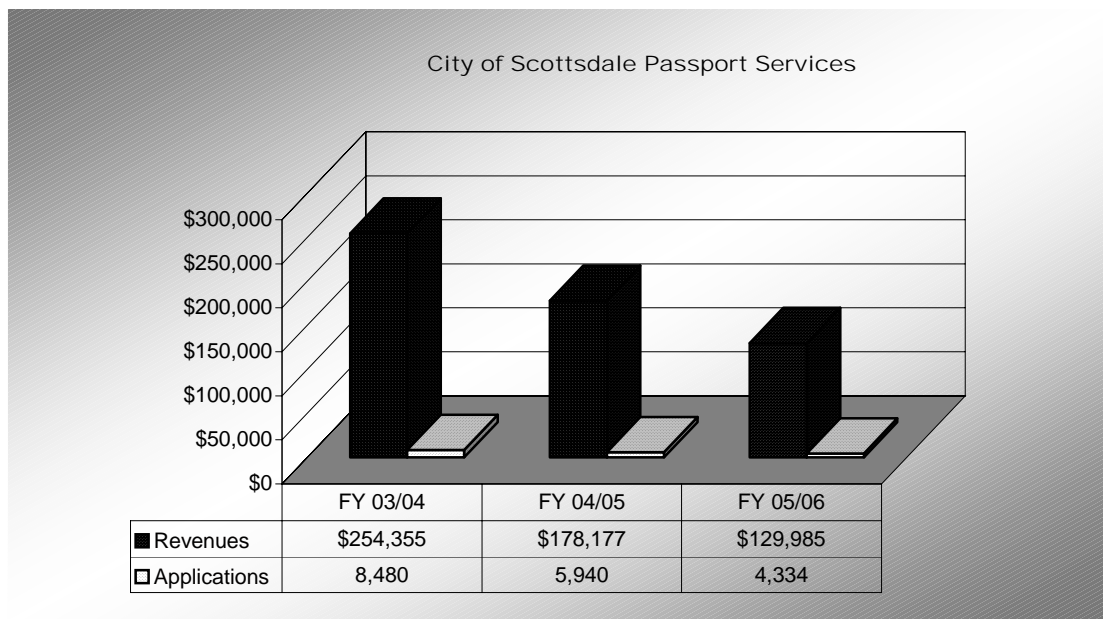
As an Acceptance Facility, the City must ensure that Agents are appropriately trained and perform actions accurately. Agents are expected to be professional and courteous and are required to follow the Passport Agents Processing Standards. As well, Agents must not disclose information regarding an applicant and must refrain from any activities that may be perceived as a conflict of interest. If the U.S. Department of State determines that the services provided by City staff are unacceptable, the designation as an Acceptance Facility can be rescinded.

Currently, passport processing is available at the City Clerk's Office and two Neighborhood Resource Centers (Papago and Pima North¹). Services are provided on a "first come, first serve" basis with the exception of Pima North, which provides services by appointment only. Each work area maintains the appropriate supplies necessary to process paperwork; none of the locations offer additional services such as passport photo processing. On average, according to City staff, it takes five to ten minutes to process a regular application. Special handling requests such as expedited delivery or applications to be hand carried to the U.S. Department of State, can take up to twenty-five minutes or more to process depending on the situation. To complete the acceptance process, the Agent reviews the application, checks the documentation, and verifies that the pictures submitted are a good likeness of the applicant and meet the State Department's standards. All

¹ In prior years, passport processing was provided at the Neighborhood Resource Center in the Arabian Library. With the closure of this Center, the processing was transferred to the Pima North Resource Center located at the Scottsdale Water Campus.

persons presenting an application must swear to or affirm to the truthfulness and completeness of the information provided on the application. Failure to do so must be noted on the application. If all documentation is present and the application is filled out appropriately, the Agent signs the form, collects the required fees, and sends the application to the City Clerk's Office (in the case of the Neighborhood Resource Center locations). The City Clerk sends the applications to the applicable U.S. Department of State, Passport Services Agency, for processing. The City, in return for providing passport services, receives an execution fee of \$30 per passport, which the applicant pays directly to the City when the passport application is submitted.

In FY 00/01, approximately \$100,000 was generated from the receipt of execution fees. In FY 03/04, revenues grew to \$254,355 and in FY 05/06 the fees are estimated to reach \$130,000. According to the City Clerk's Office, the revenue fluctuations are due to execution fee increases, heightened national security measures resulting from September 11, and the 2004 implementation of passport processing at local Postal Service Offices. The insert below illustrates passport activities for three years, beginning in FY 03/04. The amount stated for FY 05/06 is a twelve-month estimation based on the current revenues received through March 2006.



SOURCE: The actual revenue balance from Financial Services Detailed Trial Balances (FYs 03/04, 04/05, and 05/06) was used. The number of applications was calculated by dividing the revenue balance by the \$30 execution fee and rounding to the nearest \$100.

SCOPE AND METHODOLOGY

The objectives of this audit were to determine if:

- Activities are in compliance with standards for passport processing facilities promulgated by the Bureau of Consular Affairs, Passport Services.
- The correct application fees are collected and forwarded to Passport Services.
- The execution fees received in return for processing passport applications are properly recorded.
- There are any other issues that need addressing.

The audit scope encompasses the passport processing procedures and the data recorded from July 2004 through April 2006. We reviewed the U.S. Department of State standards applicable to passport services and City policies relating to cash handling and records retention. We also interviewed appropriate City staff, conducted on-site observations, reviewed passport applications processed while on-site, and tested previously processed transactions by reviewing copies of Federal Daily Transmittal lists. Compliance check sheets, designed to track an Agent's performance of required tasks, and questionnaires, summarizing staff knowledge of established procedures, document the audit work performed.

To verify proper recording of execution fees, we selected 90 completed passport transactions and obtained copies of the related cash transmittals and SmartStream Journal Balance reports when applicable. The revenue was then traced to the Detailed Trial Balance.

The audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* The survey work took place in April and audit testing was completed in May 2006 with Monica Thomas performing the work.

OBJECTIVE 1: DETERMINE IF ACTIVITIES ARE IN COMPLIANCE WITH PASSPORT SERVICES STANDARDS PROMULGATED BY THE BUREAU OF CONSULAR AFFAIRS, PASSPORT SERVICES.

Activities carried out by City staff acting in the capacity of Passport Agents complied, overall, with standards; operational performance could be further strengthened through the implementation of a formal quality control system that includes routine interdepartmental communication, supervisory monitoring, and a requirement for annual training.

Clarification is needed from the U.S. Department of State to ensure that continued use of a volunteer to perform passport-related activities does not create an issue of non-compliance.

Criteria: An Agent is expected to be a trained, permanent employee of the designated Facility. As well, Agents are required to follow procedures as prescribed in the current Passport Agents Reference Guide. Duties include:

- Recording, on the application, the identification presented and verifying that the photographs submitted are a good likeness of the customer.
- Screening the evidence submitted to prove citizenship and administering an oath attesting that the information presented is true.
- Reviewing the application for completeness and obtaining the customer's signature.
- Signing the application and imprinting the City Seal on the document to evidence that all requirements were met.
- Collecting and forwarding required fees to Passport Services.
- Completing an Acceptance Agent Observation Checklist if fraud or suspicious activity is suspected.

Condition: During our observations of passport processing at the three sites designated to accept passports, staff followed the established procedures and performed the required verification of information. At one location, however, we observed a volunteer carrying out certain Agent functions (e.g., verifying applicant identity, collecting required documentation, and answering questions) then passing the actual passport application to City staff for signature. When questioned, CNR management confirmed that the volunteer was not an authorized Agent but believed it acceptable for a volunteer to serve as the primary point of contact providing an authorized Agent completed the paperwork. In our view, however, allowing a volunteer to act as an Agent and collect passport-related documentation does not comply with federal standards.

To determine if there is reasonable assurance that standards are complied with, we reviewed newly completed applications, Daily Transmittal lists, and inquired about the system of internal quality control. Out of 27 new applications, only 1 exception was found in which an application was not correctly signed or dated by an Agent. Tests of the transmittal lists showed similar results. One error was found; a field on the transmittal list was not completed.

Although testing found no significant instances of non-compliance with standards, we did find that an appropriate system of internal quality control has not been implemented. Under the current organizational structure, the only internal quality review is conducted by staff assigned to the City Clerk's Office as a function associated with forwarding applications to the Department of State. This practice does not place the quality review within a reasonable nexus of the staff responsible for compliance with standards and creates additional workload for the Clerk's Office by allowing staff in one work area to take responsibility for the accurate completion of a work product assigned to another work area. Moreover, because the City Clerk's Office does not keep records of the quality control reviews, data that could be used to identify particular processing activities needing to be re-examined or staff in need of additional training are not identified. As a result, any conclusion regarding the job performance of a particular Agent is based on the memory of the Agent or the individual conducting the review.

While there is no federal requirement for annual training as a condition of retaining authorization to act as an Agent, we inquired about the process in place to ensure that Agents are current on passport trends and issues. We found that there is no management expectation, at the City, for Agents to receive annual training. Instead, efforts vary based on the individual interest or need. Agents read monthly newsletters issued from the Department of State and rely on contacts with the U.S. Customer Service Manager for general discussion or to resolve questions. Internal staff meetings, held independently within each work area, are also used as a means of keeping Agents current on issues. Training for new Agents is hands-on and provided by the more experienced passport staff. In 2006, no one at the City took advantage of the free training provided locally by the U.S. Department of State.

Finally, we inquired about inter-department communications to ensure that sufficient procedures were in place for consistent service delivery. We found that there are no formal interdepartmental meetings between management or staff in the City Clerk's Office and CNR to discuss program improvements, changes, or work processing issues. Joint planning, training, and communication is needed to minimize the risk of errors, eliminate duplicate

efforts, and provide management with documented assurance of the accuracy and completeness of passport processing.

Cause: Historical practice combined with a corporate culture of independent service delivery.

Effect: Ineffective communication between two separate work areas, duplicate quality control efforts, and the potential for errors to remain undetected.

OBJECTIVE 2: DETERMINE IF THE CORRECT APPLICATION FEES ARE COLLECTED AND FORWARDED TO THE U.S. DEPARTMENT OF STATE.

The correct fees are collected when passport applications are processed.

Criteria: Passport fees as set by the U.S. Department of State.

Condition: We reviewed 27 current applications and transmittal records for 90 applications processed in prior periods to verify collection of correct fees. No discrepancies were found. We also made an inquiry to the Department of State seeking information regarding past history. The Customer Service Manager confirmed that there have been no issues with the receipt of fees.

Cause: City employees, serving as Passport Agents, are knowledgeable of established requirements.

Effect: Reasonable assurance that the correct fees will be collected.

OBJECTIVE 3: DETERMINE IF REVENUES RECEIVED FROM PASSPORT PROCESSING ARE PROPERLY RECORDED.

Revenues derived from passport execution fees are reflected correctly on financial records.

Criteria: Results of all business activities must be recorded promptly, completely, and accurately. Handling of funds should comply with requirements set out in Administrative Regulation 268, "Cash Handling."

Condition: A random sample consisting of six daily deposits from each site was traced from the cash transmittal records to the revenue account detail on the City's trial balance. No discrepancies were found.

While on site for observations, cash handling controls were also reviewed. At each site, funds were handled, recorded, and deposited as specified in Administrative Regulation 268. Deposits were prepared daily and safeguarded in a locked bank bag until presented for processing. Appropriate documentation was retained and a receipt was provided when cash was received as payment for execution fees.

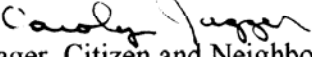

Cause: Management has emphasized the need to follow established City policies and appropriate accounting practices.

Effect: Reasonable assurance that revenues will be safeguarded until deposited and correctly posted on City financial records.

APPENDIX A – MANAGEMENT RESPONSE

Memorandum

TO: Cheryl Barcala, City Auditor

FROM: Carolyn Jagger, City Clerk 
Judy Register, General Manager, Citizen and Neighborhood Resources 

DATE: May 31, 2006

RE: Passport Services Audit #0607

Thank you for your review of Passport Services and for the valuable feedback that you have provided regarding this program. We have reviewed your findings and present our proposal for improving those areas that have been identified.